

HIL Ltd.

Weak performance, expect recovery ahead

HIL Ltd. (HIL) reported Q1FY24 results were below than our estimates, mainly due to lower margins in the roofing solutions segment and higher than estimated loss in the flooring solutions segment. In Q1FY24 company reported ~6.4% YoY decline in overall sales due to decline in sales of the flooring & polymer solutions segment. Parador business was impacted due to high inflation & interest rate in Europe which led to weak consumer sentiments. Polymer solution segment reported volume growth of ~17% YoY in Q1FY24 but sales value was impacted due to lower resin prices. In Q1FY24 EBIDTA margin declined by ~273 bps YoY led by ~39 bps YoY reduction in gross margins and operating de-leverage in the business. Margins in all the business segment (except polymer solutions) of the company were impacted YoY mainly due to increase in raw material cost. Management has set a target to achieve sales of Euro 500 mn in Parador in the next 3-4 years. We expect performance in Parador segment to improve from Q3FY24 once company starts to get incremental sales from newly entered commercial segment which accounts for ~40%-60% of the flooring market.

Segmental Outlook:

Roofing Solutions: In the roofing solutions segment company expects to continue **maintain its market leadership** with a strict focus on cost reduction. A good monsoon should have a positive impact on the rural income which is expected to drive demand for roofing products.

Building Solutions: Company's building solutions business is performing well and the **next leg of growth will be driven by capacity enhancement at existing plants**. Margins in the segment is expected to improve with increase in capacity utilisation levels and better product mix.

Polymer Solution: In the polymer solutions company is aggressively growing its distribution network, increasing reach and is also investing in expanding its product range. Company now has ~1500+ SKU's in the pipes and fitting segment. **Company has also entered into underground drainage pipe segment by commissioning a state of the art facility**. Sales realisation is now among the best in the industry and the segment is poised for significant growth going forward.

Flooring Solutions: Company has appointed **Mr David Bradham as the CEO** of Parador in order to strengthen the leadership team and make Parador one of the most valuable interiors & flooring brand globally. **Company is entering new markets in America, Middle-east and Asia and building the commercial channel to hedge against the current weak demand scenario in Europe**.

Vision- 2026: Management reiterated that HIL is well on the way to achieve revenue of \$1 bn by 2026 & progressively advancing towards becoming a "One-Stop" building material & Solution provider. In order to reach this target, management would also take resort of any in-organic opportunities. **Going forward growth will be driven from Flooring, Polymer & Building solutions segment, supported by growth from Roofing solutions segment**.

Outlook and Valuation:

Considering HIL's dominant market position in the domestic fibre cement sheet industry and its commitment to achieve USD 1 bn revenue by 2026, **we have valued the stock at 10x FY25E EPS of Rs. 345.9 to arrive at a target price of Rs. 3459. We continue to have a "Buy" rating on the stock.**

Y/E Mar (Rs mn)	Q1FY24	Q1FY23	YoY (%)	Q4FY23	QoQ (%)	Q1FY24e	Var. (%)
Net sales	10,155	10,847	-6.4%	8,633	17.6%	11,372	-11%
Operating costs	9,283	9,619	-3.5%	8,256	12.4%		
EBITDA	872	1,228	-29.0%	377	131.4%	1,023	-15%
EBITDA Margin (%)	8.6%	11.3%	(273)Bps	4.4%	422 Bps	9.0%	(41)Bps
Depreciation	302	279	8.0%	294	2.5%		
Interest	96	29	234.3%	76	26.6%		
Other income	41	139	-70.3%	34	22.8%		
Share of associates	-6	-3		-2			
Exceptional Items	227	0		0			
PBT	736	1057	-30.3%	39			
Provision for tax	158	195	-19.0%	-7	-2260.3%		
Effective tax rate (%)	21.4%	18.4%		-18.8%			
Reported PAT	579	867	-33.3%	46		745	-22%
PAT Margin (%)	5.7%	8.0%	(230)Bps	0.5%	516 Bps	6.6%	(85)Bps

Source: Company, SMIFS Institutional Research Estimates

Y/E Mar (Rs mn)	Revenue	YoY (%)	EBITDA	EBITDA (%)	Adj. PAT	YoY (%)	Adj. EPS	RoE (%)	RoCE (%)	P/E (x)	EV/EBITDA (x)
FY21	30,436	19%	4,093	13.4%	2,143	102%	286.3	21.5%	15.6%	6.1	4.1
FY22	35,202	16%	3,914	11.1%	2,104	-1.8%	280.1	18.0%	13.2%	16.1	9.2
FY23	34,790	-1.2%	2,229	6.4%	971	-54%	129.3	7.8%	5.9%	23.8	12.0
FY24e	36,872	6%	3,469	9.4%	1,609	66%	214.2	11.8%	10.5%	13.8	7.2
FY25e	43,723	19%	4,852	11.1%	2,599	62%	345.9	16.6%	14.2%	8.6	4.9

Source: Company, SMIFS Institutional Research Estimates



Rating: Buy Upside: 17%
Current Price: 2,962 Target Price: 3,459

Earlier recommendation

Previous Rating: Buy
Previous Target Price: 3,045

Market data

Bloomberg: HIL IN
52-week H/L (Rs): 3,945/2,202
Mcap (Rs bn/USD bn): 22.39/0.27
Shares outstanding (mn): 7.56
Free float: 59.4%
Avg. daily vol. 3mth (in '000): 18.3
Face Value (Rs): 10

Source: Bloomberg, ACE Equity, SMIFS Research

Shareholding pattern (%)

	Jun-23	Mar-23	Dec-22	Sep-22
Promoter	40.6	40.6	40.6	40.7
FIIs	2.5	2.8	2.6	3.0
DIIIs	3.6	3.5	3.4	3.4
Public/others	53.3	53.1	53.4	52.9

Promoters Pledging (%)

	0	0	0	0
Pledged				

Source: BSE

Price performance (%)*

	1M	3M	12M	36M
NIFTY 50	1.8	7.6	12.6	76.3
NIFTY 500	2.6	10.2	13.3	86.6
HIL	-4.5	9.1	-21.1	138.9

*as on 2nd Aug 2023; Source: BSE, SMIFS Research

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Q1FY24 — Key takeaway from management call

Vision 2026-

- Management reiterated that HIL is well on the way to achieve revenue of \$1 bn by 2026 & progressively advancing towards becoming a “One-Stop” building material & Solution provider. In order to reach this target, management would also take resort of any in-organic opportunities.
- Company target to achieve EBIDTA margin in the range of ~12%-14% by FY26e.

Roofing Solutions:

- In Q1FY24 sales in the segment increased by ~3.6% YoY to ~Rs 4.66 bn with highest ever production & sales of the segment. Segment contributed ~46% to the overall sales of the company in Q1FY24. **Capacity utilization in Q1FY24 was ~100%.**
- In the roofing solutions segment company expects to continue maintain its market leadership. In Q1FY24 the season started with sluggish mode which impacted pricing in the segment. **A good monsoon should have a positive impact on the rural income which is expected to drive demand for roofing products going ahead.**
- Prices of Fibre has increased by ~22%-24% YoY is now at a new level. Management does not expect any reduction in fibre cost going forward in the near term and expect current prices to be the new normal. **Company has taken some price increases (~3% in Q1FY24)** but was not able completely pass on increase in raw material cost which impacted profitability of the segment. There is still an under recovery of ~60% to pass on the higher fibre cost.
- At the current cost structure company has to further take a price increase of ~3%-4% to pass on the entire increase in fibre cost. Management expects that it will take ~6-9 months to fully pass on the cost in the roofing segment.
- **Generally, Q2 is a seasonally weak quarter for the roofing segment due to monsoons and prices tends to correct by ~3%-4% at the industry level due to seasonality but this year prices have not dropped at the industry level.**
- Company’s roofing brand “Charminar” enjoys strong brand equity and has strong distribution network with market reach of ~20,000 outlets, ~60% tehsils in India.

Building Solutions:

- In Q1FY24 sales in the segment increased by ~8% YoY to ~Rs 1.34 bn. Segment contributed ~13% to the overall sales of the company in Q1FY24. **Capacity utilization in Q1FY24 stood at ~70%-75%.** In Q1FY24 company has served ~550 projects and has a good order book.
- In Q1FY24 short term demand blip in North and West market and the on-going strike at Chennai plant led to lower growth. Beyond near term challenges **company is confident of maintaining both growth & profitability in the segment.**
- The next phase of growth is expected to come from enhancement of block capacities in Golan & Jhajjar plant and with the commissioning of the new

boards and panels plant at Odisha. Company is also looking for acquisition to grow the business mainly in South India.

- Company has done successful integration of acquired blocks business of **Fastbuild Blocks Pvt Ltd (FBPL)** an AAC blocks manufacturer in Cuttack, Odisha. **This acquisition will help HIL in expanding its presence in the fast growing AAC Blocks market in Eastern region and maintain its leadership position.**

Polymer Solutions:

- In Q1FY24 segment reported sales of ~Rs 1.20 bn down by ~16% YoY. Segment contributed ~12% to the overall sales of the company in Q1FY24. **Capacity utilization in Q1FY24 stood at ~70%.**
- In Q1FY24 company reported **volume growth of ~17% YoY** but sales value was impacted due to decline in polymer prices. There was no inventory loss in Q1FY24. HIL is driving growth in the business on the back of new SKUs, improving quality, increasing manufacturing efficiency and increasing influencer activity.
- **Sales realization in the polymer solution segment is now among the best in the industry. With a pan India distribution network, comprehensive product portfolio of ~1500+ SKU, state of the art R&D and production facilities this segment is poised for significant growth going forward.**

Flooring Solution- Parador:

- In Q1FY24 segment reported sales of ~Rs 2.94 bn decline of ~19.6% YoY. Parador business was impacted due to high inflation & interest rate in Europe which led to weak consumer sentiments, resulting into a soft demand scenario. Segment contributed ~29% to the overall sales of the company in Q1FY24. **Company has enough capacity in Parador and can achieve double of the current turnover on the present capacity.**
- Company has appointed **Mr David Bradham as the CEO of Parador** in order to strengthen the leadership team and make Parador one of the most valuable interiors & flooring brand globally. He has earlier worked with large global flooring companies like Mohawk, Interface, Milliken & Company. **He has extensive experience in driving growth and scaling up business in the flooring industry across Europe, North America and Asia Pacific. He has over 3 decade of experience in the flooring industry globally.**
- **Parador has now extended its coverage into commercial segment which accounts for ~40%-60% of the overall flooring market is currently un-addressed by the company. In FY24 management expect ~25%-30% of sales of Parador from commercial segment.**
- Sales in Germany and Austria forms ~50% of the overall sales of Parador. Company is looking to grow Parador business beyond **Central Europe to other parts of Western Europe, North America, Middle East and Asia.**
- As the cost pressure have started easing out and demand picking up gradually, management is optimistic about the prospects of the Parador business. Parador has an order book of ~ Euro 75 mn.
- In Parador the first milestone is to reach sales of Euro 500 mn in the next 3-4 years with both organic and in-organic route. Growth in Parador will be driven

by a) gaining market share in key market of Europe b) additional sales from new markets of North America, Middle East and Asia Pacific c) continued focus on quality and innovation in creating product line which can command pricing premium in the market.

Others:

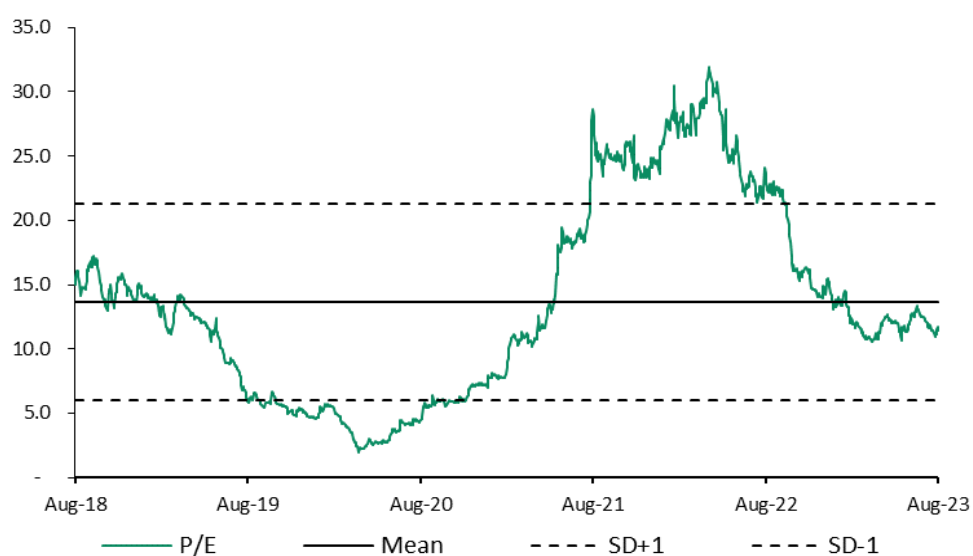
- During Q1FY24, the board of directors of the company has granted in-principal approval for further investment of up to Euro 10 mn either by subscribing to the equity stock or granting loan to HIL International GmbH, Germany, wholly-owned subsidiary, in one or more tranches, based on need and requirement.
- The board of directors have also granted in-principal approval to give corporate guarantee for an amount of up to Euro 35 mn in favour of the Bank(s) for and on behalf of HIL International GmbH, Wholly-owned Subsidiary & its subsidiaries against the loan availed/ to be availed for refinancing of the existing loan by HIL International GmbH and its subsidiaries.

Outlook and Valuation

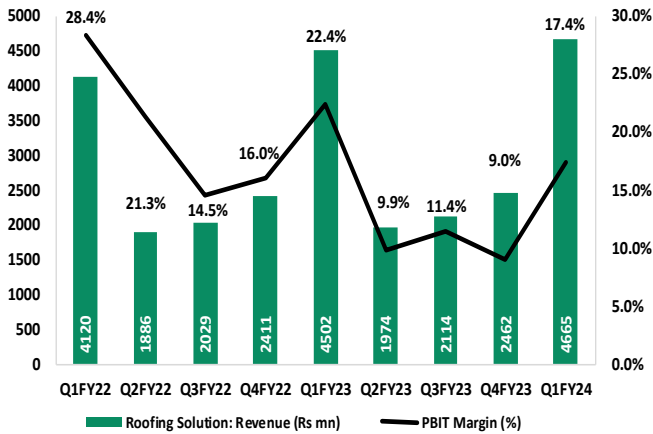
HIL's diversified business profile, geographical diversification, pan-India manufacturing presence, wide distribution and dealership network, strong brand recall, along with prudent working capital management and strong pricing power would help in healthy performance going forward. Despite the near term pressures, with the increasing thrust on development and housing; rising income levels of the people; increase in demand of fibre cement (FC) sheets and building materials would provide opportunity and growth to the company's like HIL.

Thus, considering HIL's dominant market position in the domestic Fibre Cement Sheet industry and its commitment to achieve USD 1 bn revenue by 2026, we have **valued the stock at 10x FY25E EPS of Rs. 345.9 to arrive at a target price of Rs. 3,459** offering return potential of ~17% based on the CMP. **We continue to retain "Buy" rating on the stock.**

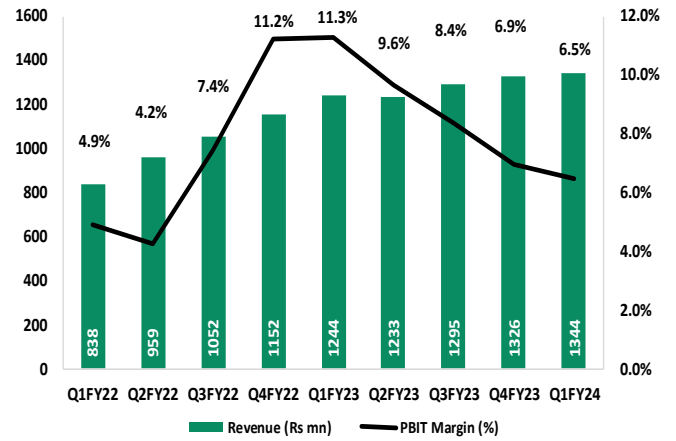
Fig 1: 1-year forward P/E



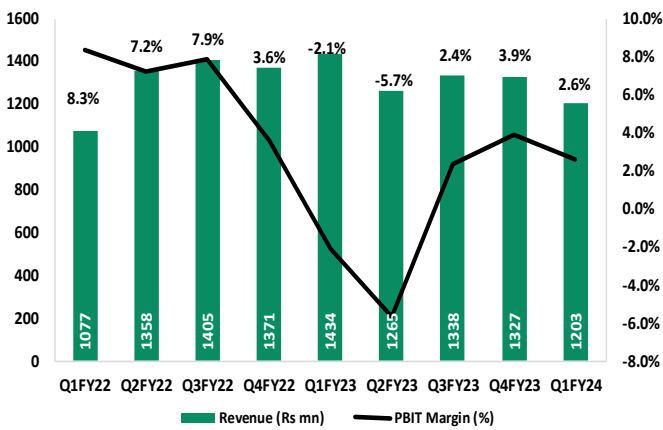
Source: Company, SMIFS Institutional Research Estimates

Fig 2: Roofing Solution


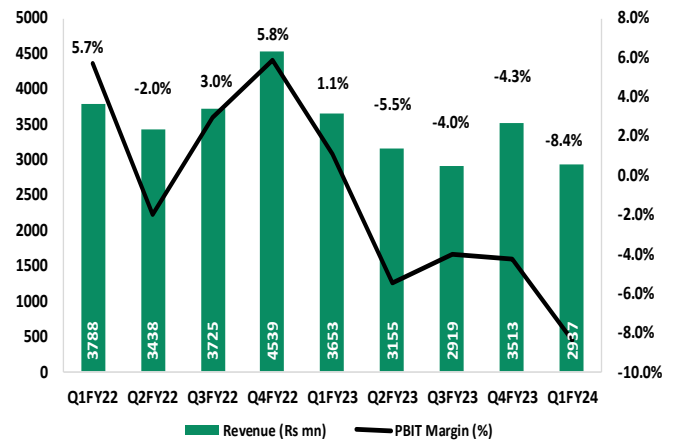
Source: Company, SMIFS Research

Fig 3: Building Solution


Source: Company, SMIFS Research

Fig 4: Polymer Solution


Source: Company, SMIFS Research

Fig 5: Flooring Solution


Source: Company, SMIFS Research

Quarterly financials, operating metrics and key performance indicators

Fig 6: Quarterly Financials (Consolidated)

Y/E March (Rs mn)	Q2FY22	Q3FY22	Q4FY22	Q1FY23	Q2FY23	Q3FY23	Q4FY23	Q1FY24
Net Sales	7,659	8,214	9,494	10,847	7,639	7,672	8,633	10,155
COGS	4,335	4,692	5,337	6,281	4,718	4,479	5,096	5,919
Employee Costs	980	1033	1088	1081	951	950	1132	1137
Other Expenditure	1715	1761	2136	2257	1850	1739	2029	2227
EBITDA	629	728.1	933	1,228	120	504	377	872
Depreciation	292	285	276	279	263	271	294	302
Interest	29	30	30	29	35	57	76	96
Other Income	47	124	23	139	76	5	34	41
Share of Associates	3	11	6	-3	-5	-8	-2	-6
Extraordinary Items	-	-	-	-	-	-	-	227
PBT	358	547	656	1057	-107	173	39	736
Tax	96	206	149	195	-39	48	-7	158
Tax rate (%)	26.8%	37.6%	22.8%	18.4%	-36.6%	27.7%	-18.8%	21.4%
Reported PAT	261	342	507	867	-68	125	46	579
Minority Interest	-	-	-	-	-	-	-	-
Adjusted PAT	261	342	507	867	-68	125	46	401
YoY Growth (%)								
Revenue	8.8%	2.3%	12.5%	10.3%	-0.3%	-6.6%	-9.1%	-6.4%
EBITDA	-31.8%	-27.7%	-16.5%	-24.4%	-80.9%	-30.8%	-59.6%	-29.0%
Adj PAT	-72.3%	-35.0%	-19.1%	-12.9%	-125.9%	-63.4%	-90.9%	-53.8%
QoQ Growth (%)								
Revenue	-22.1%	7.3%	15.6%	14.2%	-29.6%	0.4%	12.5%	17.6%
EBITDA	-61.3%	15.8%	28.2%	31.6%	-90.2%	319.5%	-25.2%	131.4%
Adj PAT	-73.8%	31.0%	48.1%	71.2%	-107.8%	LTP	-63.1%	767.1%
Margin (%)								
RMC/revenue (%)	56.6%	57.1%	56.2%	57.9%	61.8%	58.4%	59.0%	58.3%
Gross margin (%)	43.4%	42.9%	43.8%	42.1%	38.2%	41.6%	41.0%	41.7%
Employee cost/revenue (%)	12.8%	12.6%	11.5%	10.0%	12.4%	12.4%	13.1%	11.2%
Other expenses/revenue (%)	22.4%	21.4%	22.5%	20.8%	24.2%	22.7%	23.5%	21.9%
EBITDA margin (%)	8.2%	8.9%	9.8%	11.3%	1.6%	6.6%	4.4%	8.6%
Adj PAT margin (%)	3.4%	4.2%	5.3%	8.0%	-0.9%	1.6%	0.5%	3.9%

Source: Company, SMIFS Institutional Research Estimates

Fig 7: Change in estimates

Rs mn	New estimates		Old estimates		Change (%)	
	FY24E	FY25E	FY24E	FY25E	FY24E	FY25E
Revenue	36,872	43,723	38,023	42,584	-3%	3%
Gross profit	15,848	19,455	16,560	18,636	-4%	4%
Gross margin (%)	43.0%	44.5%	43.6%	43.8%	-57 Bps	73 Bps
EBITDA	3,469	4,852	3,784	4,413	-8%	10%
EBITDA margin (%)	9.4%	11.1%	10.0%	10.4%	-54 Bps	73 Bps
PAT	1,609	2,599	1,829	2,288	-12%	14%
EPS (Rs)	214	346	243	305		

Source: Company, SMIFS research estimates

Financial Statements (Consolidated)

Income Statement					
YE March (Rs mn)	FY21	FY22	FY23E	FY24E	FY25E
Net Sales	30,436	35,202	34,790	36,872	43,723
COGS	15,722	19,539	20,573	21,024	24,268
% of sales	51.7%	55.5%	59.1%	57.0%	55.5%
Employee Cost	3,940	4,188	4,113	4,277	4,984
% of sales	12.9%	11.9%	11.8%	11.6%	11.4%
Other Exp.	6,682	7,561	7,874	8,102	9,619
% of sales	22.0%	21.5%	22.6%	22.0%	22.0%
EBITDA	4,093	3,914	2,229	3,469	4,852
Other Income	181	304	253	146	160
Depreciation & Amortisation	1,090	1,163	1,108	1,206	1,307
PBIT	3,184	3,056	1,375	2,409	3,705
Interest cost	278	126	196	294	185
Core PBT	2,725	2,625	926	1,969	3,360
Exceptional items	-	-	-	227	-
Share of associates	11	22	-12	3	16
PBT	2,917	2,951	1,168	2,344	3,536
Tax Expenses	774	847	196	563	937
Tax Rate (%)	26.5%	28.7%	16.8%	24.0%	26.5%
PAT	2,143	2,104	971	1,781	2,599
Adjusted PAT	2,143	2,104	971	1,609	2,599

Source: Company, SMIFS Institutional Research Estimates

Key Ratios					
YE March	FY21	FY22	FY23	FY24E	FY25E
Growth ratios (%)					
Net sales	19.1%	15.7%	-1.2%	6.0%	18.6%
EBITDA	72.5%	-4.4%	-43.0%	55.6%	39.9%
Adjusted PAT	102.3%	-1.8%	-53.8%	65.7%	61.5%
Margin Ratio (%)					
Gross Profit	48.3%	44.5%	40.9%	43.0%	44.5%
EBITDA	13.4%	11.1%	6.4%	9.4%	11.1%
EBIT	9.9%	7.8%	3.2%	6.1%	8.1%
Core PBT	9.0%	7.5%	1.5%	5.3%	7.7%
Adjusted PAT	7.0%	6.0%	2.8%	4.4%	5.9%
Return Ratio (%)					
ROE	21.5%	18.0%	7.8%	11.8%	16.6%
ROCE	15.6%	13.2%	5.9%	10.5%	14.2%
Turnover Ratio days (days)					
Gross Block Turnover (x)	2.6	2.9	2.6	2.4	2.7
Adj OCF/Adj PAT (%)	204	73	116	182	111
Inventory	113	134	121	120	120
Debtors	12	11	13	14	14
Creditors	74	69	60	60	60
Cash Conversion Cycle	50	76	75	74	74
Solvency Ratio (%)					
Debt-equity (x)	0.5	0.3	0.3	0.2	0.2
Net Debt-equity (x)	0.4	0.2	0.3	0.2	0.1
Gross Debt/EBITDA	1.1	0.7	1.8	0.9	0.6
Current Ratio	1.3	1.4	1.4	1.5	1.8
Interest coverage ratio (x)	10.8	21.8	5.7	7.7	19.2
Per share (Rs)					
Reported EPS	346.9	280.5	129.1	237.1	345.9
Adj. EPS	286.3	280.1	129.3	214.2	345.9
CEPS	431.9	427.5	276.7	374.7	519.8
Book value	1330	1558	1661	1824	2086
Dividend					
DPS (Rs)	40.0	65.0	45.0	60.0	70.0
Dividend Payout (%)	14%	23%	35%	28%	20%
Dividend Yield (%)	1.4%	2.2%	1.5%	2.0%	2.4%
Valuation					
P/E	6.1	16.1	23.8	13.8	8.6
P/BV	1.3	2.9	1.9	1.6	1.4
EV/EBITDA	4.1	9.2	12.0	7.2	4.9
EV/Sales	0.5	1.0	0.8	0.7	0.5
Adj M.Cap /Core PBT	4.3	12.5	42.9	11.0	6.2
Adj M.Cap / Adj OCF	2.7	21.5	20.0	7.4	7.2

Source: Company, SMIFS Institutional Research Estimates

Balance Sheet					
YE March (Rs mn)	FY21	FY22	FY23	FY24E	FY25E
Sources of funds					
Capital	75	75	76	76	76
Reserves & Surplus	9,878	11,587	12,361	13,579	15,539
Shareholders' Funds	9,953	11,662	12,431	13,648	15,611
Total Debt	3,487	2,877	4,075	3,075	2,875
Deferred Tax Liabilities	1,048	980	1,015	1,015	1,015
Other Non-current Liabilities	581	539	461	488	474
Total Liabilities	15,068	16,058	17,980	18,225	19,974
Application of funds					
Gross Block	12,220	12,989	14,309	15,809	17,009
Net Block	10,300	10,076	10,774	10,391	10,331
Capital WIP	108	228	305	305	305
Other Non-current Asset	555	543	681	698	735
Investments	304	4	3	3	3
Goodwill	1,293	1,270	1,425	1,425	1,425
Inventories	4,866	7,161	6,841	6,912	7,978
Sundry Debtors	965	1,098	1,283	1,414	1,677
Other Current Assets	1,443	1,118	1,702	1,552	1,691
Cash & Bank Balances	1,301	734	628	542	1,444
Total Current Assets	8,575	10,112	10,455	10,420	12,790
Creditors	3,205	3,692	3,386	3,456	3,989
Other Current Liabilities	2,562	2,138	1,918	1,208	1,271
Provisions	300	343	356	349	351
Total Current Liabilities	6,067	6,173	5,659	5,014	5,611
Net Current Assets	2,508	3,938	4,796	5,407	7,179
Total assets	15,068	16,058	17,980	18,225	19,974

Source: Company, SMIFS Institutional Research Estimates

Cash Flow					
YE March (Rs mn)	FY21	FY22	FY23	FY24E	FY25E
Op. profit before WC changes	4,198	3,898	2,335	3,792	4,962
Net change in working capital	1,379	-1,310	-828	-8	-950
Tax Paid	-918	-926	-187	-563	-937
Cash flow from operating activities (a)	4,660	1,663	1,320	3,221	3,075
Adjusted OCF	4,382	1,537	1,124	2,928	2,890
Capital expenditure	-1,064	-811	-1,322	-1,500	-1,200
Adjusted free cash flow	3,317	726	-197	1,428	1,690
Cash flow from investing activities (b)	-344	-504	-1,777	-1,450	-1,150
Proceeds from issuance of share capital	9	13	29	0	0
Debt issuance (repayment)	-3,442	-1,362	1,050	-1,000	-200
Interest & lease expenses	-277	-107	-170	-294	-185
Dividend Paid	-187	-337	-488	-564	-639
Cash flow from financing activities (c)	-3,898	-1,793	421	-1,857	-1,023
Net change in cash (a+b+c)	418	-634	-36	-86	902

Source: Company, SMIFS Institutional Research Estimates

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